

LONG-RANGE BUILDING PROGRAM

PROGRAM DESCRIPTION

In 1963, the legislature enacted the Long-Range Building Program (LRBP) to provide funding for construction, alteration, repair, and maintenance of state-owned buildings and grounds. The program was developed in order to present a single, comprehensive, and prioritized plan for allocating state resources for the purpose of capital construction and repair of state-owned facilities. Historically, the LRBP has been funded with a combination of cash accounts and bonding. The various types of cash accounts include state and federal special revenue funds, other funds (such as university and private funds), and long-range building program account funds.

Figure 1 summarizes capital project appropriations for each biennium since 1985.

Capital Projects Appropriated by Biennium 1985 Biennium to 2007 Biennium (in millions)						
Biennium	LRBP Projects Fund	General Fund	Other Funds ³	Total Cash Projects	G.O. Bonds	Total Cash & Bonded Projects
1985	\$10.870	\$0.000	\$15.693	\$26.563	\$39.335	\$65.898
1987	10.518	-	19.202	29.720	8.550	38.270
1989	6.247	-	11.440	17.687	-	17.687
1991	7.515	-	21.556	29.071	3.823	32.894
1993	8.382	1.768	70.052	80.202	48.561 ¹	128.763
1995	3.119	2.600 ²	30.898	36.617	6.460	43.077
1997	7.835 ⁴	-	145.191	153.026	41.865	194.891
1999	9.160	-	69.164	78.324	43.319	121.643
2001	7.515	0.170	107.936	115.621	33.404	149.025
2003	5.490	-	75.325	80.815	25.025	105.840
2005	3.282	-	76.458	79.740	-	79.740
2007 ⁵	5.128	30.000	120.976	156.104	5.100	161.204

¹ The 1993 legislature reduced the prison expansion by \$12.7 million.

² HB46 diverted cigarette tax revenues from the capital projects fund to a state special revenue fund for the operation of veterans' homes. This \$2.6 million reduction in the capital projects fund was offset by a general fund appropriation.

³ Other funds include non-general fund sources, such as state and federal special revenue funds, private contributions, and miscellaneous "other" funds.

⁴ Excludes the \$3.5 million general fund appropriation to OPI for state advances and reimbursements for school facilities (HB5). This was not part of the long range building program.

⁵ Amounts provided for the 2007 biennium are based upon the executive recommendation.

Figure 1

EXECUTIVE RECOMMENDATION

The executive request for the Long-Range Building Program totals \$161.2 million for the 2007 biennium. The request includes a one-time general fund transfer to the long range building fund for cash projects to do maintenance for state buildings. This represents an increase of more than 102 percent from the 2005 biennium. During the 2005 biennium, there were no projects funded with bonds, and the executive proposal included only one bonded project for the 2007 biennium. The funding for the various cash and bonding projects is as follows:

- \$5.1 million long range building program projects funding
- \$30.0 million general fund (one-time transfer)
- \$34.8 million state special revenue
- \$11.9 million federal special revenue
- \$74.3 million "other" funds
 - \$71.6 million University donations, grants, state funds, auxiliary funds, and higher education funds
 - \$2.7 million in all other agency donations and grants
- \$5.1 million in General Obligation Bonds

LRBP Cash Program

Figure 2 shows the projects recommended by the executive, listed by agency. Those projects denoted with an asterisk are new construction and amount to \$65 million, or 41.7 percent, of the total cash program. The remaining \$91 million of projects are deferred maintenance and repairs. The listed projects will be requested in HB 5 (cash projects) and are numbered to indicate priority.

Long-Range Building Program - Cash Projects HB 5 - 2007 Biennium						
Project		LRBP	Executive Recommendations - Cash Projects			
			State Special	Fed Special	Other Funds	Total
Department of Administration						
1	Roof Repairs & Replacement	\$3,091,700		\$206,500		\$3,298,200
2	Repair/Preserve Building Exteriors	500,000				500,000
3	Window Repairs & Replacement	1,275,000				1,275,000
4	Deferred Maintenance, Montana Law Enforcement Academy	765,000				765,000
5	Hazardous Materials Abatement	500,000				500,000
6	Code/Deferred Maintenance Projects	1,307,300		45,000		1,352,300
8	Repair Deteriorated Campus Infrastructure	550,000				550,000
9	Major Maintenance and Repairs to State Capitol	500,000				500,000
20	Upgrade Fire Alarm Systems	400,000				400,000
23	Repair Elevators, Capitol Complex	800,000				800,000
34	Upgrade 1100 North Last Chance Gulch	1,808,000				1,808,000
36	Replace Clearwater Unit Fire Cache	250,000				250,000
40	Federal Spending Authority			2,000,000		2,000,000
41	Western Montana Veterans' Cemetery, Missoula*		3,200,000			3,200,000
42	Montana State Veterans' Cemetery Columbarium, Ft Harrison*		500,000			500,000
Department of Corrections						
11	Improve Water System, MSP-Deer Lodge	125,000				125,000
14	Improve High-Side Kitchen Ventilation, MSP-Deer Lodge	117,300				117,300
35	Improve Perimeter Security, MSP-Deer Lodge	1,400,000				1,400,000
Department of Fish, Wildlife, and Parks						
53	Big Springs PCB Cleanup		2,375,000	2,375,000		4,750,000
54	Future Fisheries		1,190,000			1,190,000
55	FAS Acquisition		650,000	100,000		750,000
56	FAS Maintenance		350,000			350,000
57	FAS Site Protection		800,000			800,000
58	Hatchery Maintenance		575,000	575,000		1,150,000
59	Community Fishing Ponds			50,000		50,000
60	Repair Dams		264,000			264,000
61	Rose Creek Hatchery*			975,000		975,000
62	Boat Washing Stations		25,000	75,000		100,000
63	Fish Cleaning Stations			112,500	37,500	150,000
64	Fort Peck Storage/Office Space*		50,000	400,000		450,000
65	Habitat Montana		5,430,000			5,430,000
66	Upland Game Bird Program		1,220,000			1,220,000
67	Wildlife Habitat Maintenance		750,000			750,000
68	Migratory Bird Stamp Program		625,000			625,000
69	Motorboat Recreation		2,305,000		2,000,000	4,305,000
70	Cultural & Historic Parks		2,245,000		300,000	2,545,000
71	Grant Programs/Federal Projects		330,000	5,000,000		5,330,000
72	Admin Facilities Repair, Maintenance & Improvements		800,000			800,000

Figure 2
Continued on next page

Long-Range Building Program - Cash Projects HB 5 - 2007 Biennium					
Project	LRBP	Executive Recommendations - Cash Projects			
		State Special	Fed Special	Other Funds	Total
Department of Public Health and Human Services					
17 Facility Improvements, Montana State Hospital-Warm Springs	\$595,500				\$595,500
29 Facility Improvements, MDC-Boulder	219,140				219,140
31 Demolish Abandoned Buildings	1,930,000				1,930,000
33 Secure Housing Unit, MDC-Boulder	2,542,000				2,542,000
37 Special Care Unit Renovations, EMVH-Glendive		475,000			475,000
38 Facility Renovation and Improvements, MVH-Columbia Falls		465,000			465,000
39 Authority to Construct Chapel, MSH-Warm Springs*				350,000	350,000
Department of Transportation					
43 Maintenance, Repair and Small Projects, Statewide		3,515,000			3,515,000
44 Equipment Storage Buildings, Statewide*		5,775,000			5,775,000
45 Chiller/Cooling Towers Replacement, Helena Headquarters		350,000			350,000
46 Office Addition, Billings*		500,000			500,000
Montana School for the Deaf and Blind					
32 Facility Improvements	400,000				400,000
Montana University System - Statewide					
7 ADA/Code/Deferred Maintenance Projects	1,400,000				1,400,000
21 Classroom/Laboratory Upgrades	1,000,000				1,000,000
Montana State University					
12 Upgrade HVAC Systems - Pershing & Brockman Halls, Northern	524,000				524,000
13 Heating System Improvements - Academic Center & McMullen Halls, Billings	245,000				245,000
16 HVAC System Repairs and Upgrades, GFCOT	650,000				650,000
22 Facility Repairs & Improvements, Billings	545,000				545,000
24 Heating Plant Phase 3, Bozeman	950,000				950,000
26 Water/Sewer System Repairs and Maintenance, Bozeman	750,000			750,000	1,500,000
27 Upgrade Primary Electrical Distribution, Bozeman	250,000			250,000	500,000
28 Facility Repairs and Improvements, AES	480,000				480,000
30 Campus Improvements, Northern	640,000			300,000	940,000
51 General Spending Authority, All Campuses				7,000,000	7,000,000
52 VisComm Black Box Theater, Bozeman*				2,750,000	2,750,000
University of Montana					
10 Upgrade Steam Distribution System, Missoula	5,935,000			3,060,000	8,995,000
15 Mining & Geology Building Mechanical System Renovation, Butte	920,000				920,000
18 Upgrade Health Sciences HVAC System - Phase 2, Missoula	970,000				970,000
19 Renovate Domestic Water Distribution System, Dillon	183,100				183,100
25 Renovate HVAC Systems - Science Complex 3rd & 4th Floors, Missoula	610,000				610,000
47 General Spending Authority, All Campuses				7,000,000	7,000,000
48 New Construction - Consolidate Campus, MCOT*				24,500,000	24,500,000
49 New Gallery Space, Missoula*				6,000,000	6,000,000
50 New Forestry Complex, Missoula*				20,000,000	20,000,000
	-	-	-	20,000,000	20,000,000
Total Cash Programs	\$35,128,040	\$34,764,000	\$11,914,000	\$74,297,500	\$156,103,540
* Denotes new construction					

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Figure 2 (continued from previous page)

LRBP Bonded Program

The executive recommends a general obligation (G.O.) bond issue for one LRBP project. The Montana Department of Transportation (DOT) will use bonded funds for the LRBP construction of equipment storage buildings statewide. Although G.O. bonds obligate the full faith and credit of the state general fund, the bonds will be paid with DOT state special revenue funds. The request for \$5.1 million will be included in the LRBP bond bill.

The conditions of the DOT bond proposal is as follows:

- The Board of Investments (BOI) will issue bonds in late FY 2006
- The bonds will have a 10-year maturity
- The bonds will have an interest rate of 5.3 percent
- Debt service would be approximately \$658,132 per year
- Debt service payment will be made by the Department of Administration with funds transferred from DOT state special revenue
- Debt service payments would begin in FY 2007 and continue through FY 2017

The assumptions used in the above conditions are subject to change. Changes in the assumption of the date of issue will cause changes in the timing of the first debt service payment. Changes in the years of maturity or interest rate will cause changes to the required debt service.

NOTE:

Because these are general obligation bonds, they constitute a state debt that requires a two-thirds vote of the members of each house of the legislature.

FUNDING – CASH PROGRAM

Funding for the Long-Range Building Program comes from various sources including the long-range building program account, state special revenue funds, federal funds, and other funds (such as university funds, private funds, and capitol land grant funds). Although the LRBP account does not represent the largest portion of funding for capital projects, the revenues allocated to this account typically represent the only specific commitment of state funds for capital projects. In the 2007 biennium only, the executive recommendation proposes a greater commitment to state building maintenance by including a one-time general fund transfer of \$30 million to the LRBP account. The LRBP account revenues include a 2.6 percent distribution of cigarette tax revenue and 12.0 percent distribution of coal severance tax revenue. Other income includes LRBP interest earnings and supervisory fees paid to the Architecture and Engineering Division (A&E) of the Department of Administration.

The LRBP account also receives some funds from the State Building Energy Conservation Program. Through this program, the state issues general obligation (G.O.) bonds, uses the bond proceeds to pay for energy efficiency improvements, then uses the resulting energy cost savings to pay the debt service on the bonds. The projects are designed so that the cost savings exceed the bond debt service payments. Excess savings are transferred to the long-range building program.

Figure 3 shows the projected fund balance for the LRBP account for the 2007 biennium. As shown, approximately \$35.1 million is requested for cash projects in HB 5, leaving an estimated fund balance of \$426,583 at the end of the 2007 biennium. The fund balance estimate includes the proposed transfer of \$30 million from the general fund. This estimated ending fund balance, prepared by the LFD, is slightly higher than that shown in the executive budget, primarily because of higher estimated cigarette tax revenues, as adopted by the Revenue and Transportation Interim Committee (RTIC). The difference in the ending fund balances is approximately \$382,000.

Long-Range Building Program Account Fund Balance Projection 2007 Biennium	
Estimated Beginning Cash Balance (July 1, 2005)	\$613,164
Revenues, 2007 Biennium ¹	
Cigarette Tax	\$3,761,000
Coal Severance Tax	7,380,000
Interest Earnings	507,827
Supervisory Fees	301,712
DEQ Transfer-Energy Savings	159,741
Total Revenues	<u>\$12,110,280</u>
Funds Available	12,723,444
Expenditures	
Operating Costs-A & E Division	(2,505,747)
Debt Service-2003G ²	(3,730,702)
Debt Service-1997B	(882,778)
Debt Service-1999C	(1,379,594)
Funding Switch ³	<u>1,330,000</u>
Total Expenditures-Excluding Capital Projects	<u>(7,168,821)</u>
Funds Available for Capital Projects	5,554,623
One Time General Fund Transfer ⁴	<u>30,000,000</u>
Total Available for Capitol Projects	35,554,623
Executive Proposals LRBP Cash Account ⁴	<u>(35,128,040)</u>
LRBP Proposed Ending Cash Balance	<u>\$426,583</u>

¹Based on RTIC revenue estimates

²Refinance of 1996D issue

³Debt Service Funding Switch, 2001 legislative session

⁴Executive budget proposal

Figure 3

**LFD
COMMENT**

General Fund Transfer - Deferred Maintenance: The LRBP proposal represents an effort by the executive to halt the increase and provide a minimal rollback in the backlog of major repairs and maintenance projects within state-owned facilities and campuses. The executive proposal recommends the transfer of \$30.0 million for major repairs, maintenance, replacement, and renovation projects. All projects funded with the transfer address facility repairs, renovations and deficiencies, and replacement of deteriorated components or buildings. None of the proposed LRBP projects will result in additional continuing costs upon completion.

While the total extent of outstanding deferred maintenance is unknown, the total is thought to amount to over \$100 million. At this time, the Architecture and Engineering Division (A&E) is attempting to calculate the total outstanding deferred maintenance for the state complex for presentation to the Long-Range Planning Appropriation Subcommittee.

**LFD
ISSUE**

Maintenance Funding: While not readily apparent in the 2007 biennium, the LRBP continues to experience reduced revenues that could become a significant problem in the future. The LRBP cash program has been supported by distributions from cigarette tax for many years. Coal severance tax support was added to the LRBP to provide debt service payments on three bond issues and since has become increasingly important to the support of the program. These two revenue sources provide the greatest part of the funding for the LRBP. Unfortunately, both the cigarette tax and the coal severance tax sources have experienced a diminishing base for revenue collections, and the base of the cigarette tax is expected to continue to deteriorate in future years.

Deferred maintenance is the vehicle used to care for and maintain state buildings. Without a comprehensive deferred maintenance program, the state would likely incur increased expenses in state buildings. The cost of deferred maintenance increases both as an issue of time (maintenance costs increase as building grow older and inflation increases costs in time) and as buildings are added to the state's inventory. Since the early 1980's, LRBP account revenues have declined from an annual proportion of 1.74 percent to a current 0.15 percent of building replacement value. A&E estimates that not less than 1 percent, or near \$11.0 million, of building replacement value should be re-invested in state owned building annually for deferred maintenance of Montana's \$1.1 billion of general fund supported state owned buildings (including the University system). The 1 percent of building replacement value addresses construction needs beyond what would be considered typical operations and maintenance included in the operational budgets of the state agencies.

Reduced revenues and increased expenses can only equate to problems for the LRBP in the future. The Long Range Planning Appropriations Subcommittee may wish to consider facilitating change for the funding mechanisms for the deferred maintenance program.

STATE BUILDING ENERGY CONSERVATION

PROGRAM DESCRIPTION

The State Building Energy Conservation Program (SBEC), administered by the Department of Environmental Quality (DEQ), was established by the 1989 legislature to reduce operating costs of state facilities by identifying and funding cost-effective energy efficiency improvement projects. Statutory authority is found in Title 90, Chapter 4, part 6, MCA. Energy efficiency improvements include:

- Replacing old, inefficient boilers
- Upgrading inefficient lighting
- Increasing ventilation system efficiency
- Insulating buildings
- Providing more effective temperature controls

Until FY 2004, the definitions for Title 90, MCA, allowed only energy conservation projects to be included in the SBEC program. In 2003, the Fifty-eighth Legislature amended 90-4-602, MCA, to define energy cost savings as “savings in utility costs to a state agency”. Consequently, water conservation projects can now be funded through the program.

Through the SBEC program, the state issues general obligation (G.O.) bonds, uses the bond proceeds to pay for energy efficiency improvements, then uses the resulting energy cost savings to pay the debt service on the bonds. The projects are designed so that the cost savings exceed the bond debt service payments. Excess savings are transferred to the Long-Range Building Program (LRBP). To date, 61 energy conservation projects have been completed through the SBEC program, and additional projects are in various stages of completion. Since program inception, the state has spent a total of \$4.4 million in oil overcharge funds and \$10 million in G.O. bond proceeds to fund the projects.

Since the SBEC program was started in FY 1994 and continuing through FY 2004, the SBEC program has captured energy savings of \$7.5 million, and the anticipated savings for FY 2005 adds another \$0.9 million to the total. All savings that remain after the DEQ pays interest and principal on the related bond issues are “swept” into the LRBP to fund additional projects. The estimated sweep for the next biennium is \$144,741, but with the maturity of the initial G.O. bond issue, the energy savings sweeps are expected to increase because the project debt service payments will end. Program requirements ensure that conservation measures have a service life of 15 years. However, energy savings are expected through the life of the project.

The first issuance of bonds for the SBEC occurred in 1993. The 1993 issue of \$1.5 million, a 10-year issue, reached maturity in late FY 2004. Since the first issue in 1993, the Board of Investments has issued five additional bonds to provide SBEC program funding. The second SBEC issue will reach maturity and a seventh bond will be issued in FY 2005. At the beginning of FY 2005, total issuance of bonded debt for the program is \$8.5 million.

EXECUTIVE RECOMMENDATION

The executive proposal for the SBEC Program for the 2007 biennium calls for the 2005 Legislature to authorize the state Board of Examiners to issue up to \$2.5 million in G.O. bonds for the purpose of funding energy conservation projects. Following is a list of projects identified by the executive for the SBEC program for FY 2006 and 2007.

State Building Energy Conservation Projects
Executive Recommendations

Projections in Design or Construction

- University of Montana – Montana Tech
 - Petroleum Building, Butte
 - Lighting improvements

Projections in Development

- Department of Administration
 - Mitchell Building, Helena
 - Building improvements
 - Museum Building, Helena
 - Boiler and control improvements
- Dept of Public Health and Human Services
 - Montana Mental Health and Nursing Care Center, Lewistown
 - Phase II boiler upgrade
- Department of Fish, Wildlife and Parks
 - FWP Miles City Headquarters Building, Miles City
 - Lighting and other improvements
- Montana State University – Northern
 - Advanced Technology Center Building, Havre
 - Campus irrigation through well water
- Preliminary LRBP Projects
 - All of the proposed HB 12 projects have been coordinated with the LRBP selection process.

FUNDING

The authority for the issuance of G.O. bonds to finance the projects listed above will be requested in HB 12. Up to \$2.5 million in bond proceeds from the sale of G.O. bonds are to be used to fund the energy efficiency improvements. The savings in energy costs that result from the projects are used to make the bond payments and fund future projects.

NOTE:

Because these are G.O. bonds, they constitute a state debt that requires a two-thirds vote of the members of each house of the legislature.

TREASURE STATE ENDOWMENT PROGRAM

PROGRAM DESCRIPTION

The Treasure State Endowment Program (TSEP) is a state infrastructure-financing program approved by Montana voters with the passage of Legislative Referendum 110 in June 1992. Grant funding for the program is derived from the investment earnings of the Treasure State Endowment trust. TSEP loans are funded with proceeds of bonds backed by the permanent coal severance tax trust. According to 90-6-702, MCA, the purpose of TSEP is to assist local governments in funding infrastructure projects that will:

- Create jobs for Montana residents
- Promote economic growth in Montana by helping to finance the necessary infrastructure
- Encourage local public facility improvements
- Create a partnership between the state and local governments to make necessary public projects affordable
- Support long-term, stable economic growth in Montana
- Protect future generations from undue fiscal burdens caused by financing necessary public works
- Coordinate and improve infrastructure financing by federal, state, local government, and private sources
- Enhance the quality of life and protect the health, safety, and welfare of Montana citizens

Infrastructure projects include drinking water systems, wastewater treatment facilities, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, and bridges.

Eligible applicants include cities, towns, counties, and tribal governments, or county or multi-county water, sewer or solid waste districts. TSEP applications are submitted to the Department of Commerce (DOC) on a biennial basis where they are evaluated according to a two-step process and are ranked according to: 1) seven statutory priorities; and 2) relative financial need. The seven statutory priorities focus on projects that:

- Solve urgent and serious public health or safety problems or that enable local governments to meet state or federal health or safety standards
- Reflect greater need for financial assistance than other projects
- Incorporate appropriate, cost-effective technical design and that provide thorough, long-term solutions to community public facility needs
- Reflect substantial past efforts to ensure sound, effective, long-term planning and management of public facilities and that attempt to resolve the infrastructure problem with local resources
- Enable local governments to obtain funds from sources other than TSEP
- Provide long-term, full-time job opportunities for Montanans, provide public facilities necessary for the expansion of a business that has a high potential for financial success, or maintain the tax base or encourage expansion of the tax base
- Are high local priorities and have strong community support

The Department of Commerce administers TSEP and makes recommendations for grant and loan awards to the executive. The executive makes funding recommendations to the Montana legislature. The legislature makes the final decisions on the award of TSEP funds. Grants have been the primary use of TSEP funding awarded since program inception. Because of high interest rates, only eight loans were authorized by the legislature in the first three funding cycles and to date, none of the successful applicants have opted to secure a TSEP loan. There are several other federal and state sources available to communities for low-interest loans, but grant funds, which help make expensive local public facility projects more affordable and financially feasible, are extremely limited. Figure 4 shows the history of TSEP awards made for the 1995 through 2005 biennia.

Treasure State Endowment Program Grant and Loan Awards by Biennium (in millions)					
Biennium	Number of Projects <u>Approved & Funded</u>		Grant Awards	Loan Awards	
	Grants	Loans			
1995	20	4	\$3.966	\$0.168	
1997	15	0	4.991	-	
1999	22	4	9.111	1.905	
2001	21	0	12.596	-	
2003	34	0	15.172	-	
2005	55	0	16.826	-	

Figure 4

EXECUTIVE RECOMMENDATION

The Department of Commerce received 47 applications for TSEP grants totaling \$18.6 million and no applications for loan funds for the 2007 biennium. The executive budget recommends appropriations for TSEP grants of up to \$17.4 million, which would indicate that funding is available for the first 46 projects. The TSEP bill typically includes several projects whose funding is above the biennial interest projections and dependant on higher than expected interest earnings. Figure 5 provides a list of the executive's TSEP recommendations for the 2007 biennium.

Treasure State Endowment Program Grant Recommendations 2007 Biennium					
Rank Order	Applicant	Type of Project	Amount Requested	Proposed Grant Award*	Cumulative Grant Award
1	St. Ignatius	Wastewater	500,000	\$500,000	\$500,000
2	Rudyard District	Wastewater	441,950	524,503	1,024,503
3	Carter District	Water	500,000	500,000	1,524,503
4	Cascade	Water	500,000	500,000	2,024,503
5	Madison County	Bridge	179,911	179,911	2,204,414
6	Lewis & Clark County	Wastewater	299,802	288,757	2,493,171
7	Stillwater County	Bridge	399,853	399,853	2,893,024
8	Seeley Lake District	Wastewater	500,000	500,000	3,393,024
9	Dodson	Wastewater	427,500	427,500	3,820,524
10	Conrad	Wastewater	500,000	500,000	4,320,524
11	Sweet Grass County	Bridge	144,989	144,989	4,465,513
12	Havre	Water	500,000	500,000	4,965,513
13	Powell County	Bridge	158,348	158,348	5,123,861
14	Mineral County	Bridge	80,090	80,090	5,203,951
15	Glacier County	Bridge	500,000	500,000	5,703,951
16	Malta	Wastewater	500,000	500,000	6,203,951
17	Crow Tribe	Wastewater	500,000	500,000	6,703,951
18	Libby	Wastewater	500,000	500,000	7,203,951
19	Big Horn County	Bridge	142,500	142,500	7,346,451
20	Custer District	Wastewater	500,000	500,000	7,846,451
21	Hill County	Bridge	450,750	450,750	8,297,201
22	Glasgow	Wastewater	500,000	500,000	8,797,201
23	Valier	Wastewater	500,000	500,000	9,297,201
24	Sheridan	Water	500,000	500,000	9,797,201
25	Beaverhead County	Bridge	84,886	84,886	9,882,087
26	Whitefish	Water	457,500	457,500	10,339,587
27	Richland County	Bridge	453,841	453,841	10,793,428
28	Upper-Lower River Road District	Water/Wastewater	500,000	500,000	11,293,428
29	Laurel	Wastewater	500,000	500,000	11,793,428
30	Ennis	Wastewater	204,894	204,894	11,998,322
31	Choteau	Water	500,000	500,000	12,498,322
32	Missoula County	Bridge	275,172	275,172	12,773,494
33	Miles City	Water	500,000	500,000	13,273,494
34	Yellowstone County	Bridge	187,800	187,800	13,461,294
35	Ranch District	Water	500,000	360,000	13,821,294
36	Hysham	Water	470,920	462,359	14,283,653
37	Carbon County	Bridge	97,100	97,100	14,380,753
38	Spring Meadows District	Water	500,000	487,500	14,868,253
39	Woods Bay District	Water	500,000	500,000	15,368,253
40	Circle	Wastewater	500,000	500,000	15,868,253
41	Fairfield	Wastewater	500,000	126,000	15,994,253
42	Sun Prairie District	Water	500,000	500,000	16,494,253
43	Ryegate	Wastewater	394,081	394,081	16,888,334
44	Chester	Wastewater	200,000	200,000	17,088,334
45	Shelby	Water	250,000	250,000	17,338,334
46	Bearcreek	Water	249,787	87,641	17,425,975
47	Bigfork District	Wastewater	500,000	262,500	17,688,475
Total Proposed Grant Awards:			<u>\$18,551,674</u>	<u>\$17,688,475</u>	
*Grant awards contingent on availability of TSEP funds.					

Figure 5

FUNDING

In July 1993, \$10.0 million was transferred from the coal severance tax permanent trust fund to the Treasure State Endowment Trust Fund, hereto referred to as the trust. To provide “start-up” funds for the grants program, the 1993 legislature authorized a \$4.1 million loan from the Board of Investments (BOI), which was completely repaid in FY 2001. Through FY 2003, the trust received 37.5 percent of the coal severance tax revenues. Between FY 2003 and FY 2016, the trust will receive 25 percent of the tax revenues, as required by 17-5-703, MCA. Funding for TSEP grants comes from trust investment earnings, which are deposited into a TSEP state special revenue account.

Treasure State Endowment Program Account Balance Projection-Executive Recommendation 2007 Biennium			
Estimated Beginning Fund Balance (7/01/2005)			\$0
Revenue Projections ¹			
2006 Investment Earnings	9,704,000		
2007 Investment Earnings	<u>10,230,000</u>		
2007 Biennium Revenues		19,934,000	
Proposed Expenditures ²			
Administration - Commerce	(1,003,590)		
Administration - DNRC	(56,000)		
Emergency Grants	(100,000)		
Water/Sewer Pre-engineering - SA	<u>(600,000)</u>		
Total Expenditures		<u>(1,759,590)</u>	
Total Funds Available for Grants		\$18,174,410	
Executive Proposed Grant Level ²		<u>17,400,000</u>	
Estimated Ending Fund Balance		<u>\$774,410</u>	
¹ Based on RTIC estimates			
² Based on executive budget proposal			

Figure 6

administrative costs, \$100,000 for the emergency grants program, and a \$600,000 appropriation for pre-engineering. Estimates adopted by the Revenue and Transportation Interim Committee (RTIC) show ample funding available (\$19.9 million) for all proposed TSEP projects shown in Figure 5. There will be an estimated 2007 ending fund balance of nearly \$800,000 if the executive recommendation is approved at the proposed level (\$17.4 million).

In the 1999 session, the TSEP grants were also slated to receive \$4.6 million in funding in the 2001 biennium and \$1.2 million in subsequent biennia from an allocation of the “coal producer’s license tax” enacted in HB 260 (1999). This funding mechanism disappeared when HB 260 was declared unconstitutional. In the special session that followed (May 2001), the legislature replaced some of that funding with a \$3.0 million general fund appropriation for the 2001 biennium.

Figure 6 shows the projected grant funds available from the treasure state endowment state special revenue account for the 2007 biennium under present law assumptions. Total new revenue in this account is estimated at \$19.9 million for the biennium. Expenditures amount to \$1.8 million and include \$1.1 million in

LFD COMMENT

TSEP Estimated Interest Earnings: The significant differences between the TSEP interest earning estimates adopted by the Revenue and Transportation Interim Committee (RTIC) and the estimates of the executive have the effect of creating differences in the number of potential grant awards and ending fund balances.

There is a possibility that the revenue estimates of trust funds bond pool interest earnings adopted by the RTIC are overstated and that amendments may be necessary that will reduce the estimates. At issue is the potential reduction in capital gains income from the sale of bonds. LFD staff is researching this issue and, if necessary, will recommend revenue estimate amendments to the appropriate tax committee. Appropriation subcommittees that appropriate these types of interest earnings should be aware that if such amendments are necessary and are adopted, the amounts available for appropriation will be reduced.

**LFD
ISSUE**

DNRC Appropriations: Loans granted under the TSEP program are issued by the Department of Natural Resources and Conservation (DNRC) in conjunction with loans issued for the Renewable Resource Grant and Loan Program. Consequently, since the inception of the TSEP, DNRC has been appropriated TSEP interest earnings to cover costs associated with loan issuance and administration. As shown in the fund balance projection table (Figure 6), \$56,000 has been budgeted for DNRC administrative expenditures for the 2007 biennium. For the 1995 through 2005 biennia, DNRC received HB 2 appropriations totaling over \$340,000 in TSEP funds for administration of TSEP loans. As mentioned above, however, only eight TSEP loans have been granted since program inception and no requests for TSEP loans were received for the 2007 biennium. Moreover, none of the eight entities receiving loans have opted to secure them. Thus, the executive provides no justification for appropriating TSEP funds to DNRC when the department has not actually been required to issue bonds for TSEP loan awards.

Options:

- 1) The LRP sub-committee could suggest removing the recommended general appropriation act appropriation of TSEP interest earnings for DNRC administration of the TSEP loan program.
- 2) The LRP sub-committee could suggest the continuation of the recommended general appropriation act appropriation of TSEP interest earnings for the DNRC administration of the TSEP loan program.

TREASURE STATE ENDOWMENT REGIONAL WATER SYSTEM

PROGRAM DESCRIPTION

The 1999 Legislature created the treasure state endowment regional water system fund as a new account within the coal tax permanent trust. The Treasure State Endowment Program Regional Water System (TSEPRW), established in 90-6-715, MCA, was created to:

“...finance regional drinking water systems that supply water to large geographical areas and serve multiple local governments, such as projects in north central Montana, from the waters of the Tiber reservoir, that will provide water for domestic use, industrial use, and stock water for communities and rural residences that lie south of the Canadian border, west of Havre, north of Dutton, and east of Cut Bank and in northeastern Montana, from the waters of the Missouri River, that will provide water for domestic use, industrial use, and stock water for communities and rural residences that lie south of the Canadian border, west of the North Dakota border, north of the Missouri River, and east of range 39.”

Two projects have received federal authorization and now qualify for a match of federal funding:

- Fort Peck Indian Reservation/Dry Prairie Regional Water System (Fort Peck/Dry Prairie)
- Rocky Boy's Indian Reservation/North Central Montana Regional Water System (Rocky Boy's/NC Montana)

A third project, the Musselshell Valley Regional Municipal Water Project (Musselshell Valley), has not qualified for federal funding, but it has received program approval from the state. To qualify for federal funding, the Musselshell Valley project is required to form a regional water authority.

The federal government estimates total project costs for Fort Peck/Dry Prairie at \$220.0 million, which includes a local match of \$18.4 million. The Rocky Boy's/NC Montana project is expected to cost \$229.0 million, with a local match of \$18.4 million. The federal government matches each local dollar with \$20 for regional water projects. The local match is split evenly between the state and the local regional water authority, unless hardship is proved. In cases of hardship, the split is 75 percent for the state and 25 percent for the regional water authority. The Department of Natural Resources and Conservation (DNRC) estimates the program costs for the Musselshell Valley project to be near \$34 million.

The Fifty-eighth Legislature transferred administration of the TSEPRW program from the Department of Commerce to the DNRC. Administrative activities and actual construction of the TSEPRW projects began in the 2005 biennium. TSEPRW funds appropriated in the 2003 session provided the first match to federal dollars for the projects. The Fort Peck/Dry Prairie sytem began project construction in FY 2004, and the state will provide a total of \$1.3 million for the match to federal dollars in the 2005 biennium. Rocky Boy's/NC Montana is expected to begin construction in FY 2005. The costs of program administration are recommended for inclusion in the general appropriations act.

EXECUTIVE RECOMMENDATIONS

The executive budget did not contain a recommendation for funding of TSEPRW project costs. A recommendation for DNRC administrative costs of \$1.1 million would be included in the general appropriations act.

FUNDING

Since July 1, 1999, 12.5 percent of the coal severance tax revenues have flowed into the TSEP regional water trust account. The interest earned from the fund is deposited into the account authorized in Title 90, Section 6, part 7, MCA, to provide a match for federal and local monies for the purpose of developing large water systems.

TSEP Regional Water System Fund Fund Balance Projection 2007 Biennium	
Estimated TSEPRWS Beginning Fund Balance (7/1/2005)	\$ 2,639,426
Revenue Projections ¹	
2006 Investment Earnings	\$1,757,000
2007 Investment Earnings	<u>2,007,000</u>
2007 Biennium Revenues	<u>3,764,000</u>
Total Funds Available	6,403,426
Proposed Expenditures ²	
Administration - DNRC	<u>(1,082,966)</u>
Total Funds Available For Projects	<u>\$ 5,320,460</u>
¹ Based on RTIC estimates	
² Based on executive budget proposal	

Figure 7

Figure 7 shows funds available for project match expected in the TSEPRW fund for the 2007 biennium. The 2003 Legislature approved use of the interest earnings to fund administrative expenses for the program. The executive 2007 biennium recommendation for administrative expenses of \$1.1 million would be included in the general appropriations act. All remaining funds, \$5.3 million, are available for appropriation in HB 11 for funding regional water projects.

**LFD
ISSUE**

Administrative Expenses: Potentially, the continued funding of administrative expenses with TSEP regional water system funds could significantly impact the ability for the fund to meet the required match of construction costs. In the 2005 biennium there was an appropriation of \$660,023 for the administrative expenses associated with the program. In the 2007 biennium, the executive budget requests an administrative appropriation of \$1.1 million. The increase of administrative costs between the two biennia is 64 percent. Interest earnings between the 2005 and 2007 biennia are expected to grow by approximately 40 percent. Furthermore, administrative costs of the 2007 biennium are equal to 29 percent of the total interest income for the same period. If administrative costs are not contained, the costs could potentially outpace the interest earnings. This would jeopardize the ability for the interest earned of the TSEPRW trust to meet its purpose of providing a match to federal and local dollars for the development of large water regional projects.

**LFD
COMMENT**

Estimated Interest Earnings: The significant differences between the TSEPRW interest earning estimates adopted by the Revenue and Transportation Interim Committee (RTIC) and the estimates of the executive have the effect of creating differences in the number of potential grant awards and ending fund balances.

There is a possibility that the revenue estimates of trust funds bond pool interest earnings adopted by the RTIC are overstated and that amendments may be necessary that will reduce the estimates. At issue is the potential reduction in capital gains income from the sale of bonds. LFD staff is researching this issue and, if necessary, will recommend revenue estimate amendments to the appropriate tax committee. Appropriation subcommittees that appropriate these types of interest earnings should be aware that if such amendments are necessary and are adopted, the amounts available for appropriation will be reduced.

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

PROGRAM DESCRIPTION

Resource indemnity trust (RIT) investment earnings are a major source of revenue for several natural resource agencies and programs, including: 1) the Renewable Resource Grant and Loan Program (RRGL); and 2) the Reclamation and Development Grant Program (RDGP). The Board of Investments invests funds deposited in the RIT and some of the investment earnings are used to fund the RRGL and RDGP. For more detailed information on the allocation and expenditure of other RIGWA proceeds and RIT interest earnings, see the Department of Natural Resources and Conservation (DNRC) summary in Section C of the Legislative Budget Analysis, Volume 4.

Two million dollars of RIT interest earnings are allocated to the RRGL account each fiscal year for the purpose of making grants. Created by the 1993 Legislature, the RRGL combines the former Renewable Resource Development Program, established in 1975, and the Water Development Program, established in 1981. As outlined under Title 85, Chapter 1, part 6, MCA, the purpose of the RRGL is to fund projects that “enhance Montana’s renewable resources through projects that measurably conserve, develop, manage, or preserve resources”.

DNRC administers the RRGL, which involves a biennial application process. DNRC and a technical review team initially evaluate each application for economic and technical feasibility, as well as to ensure that proposed projects are located in Montana. Qualifying applications are then examined according to six criteria:

- Financial feasibility
- Adverse environmental impact
- Technical merit
- Public benefit
- Need
- Urgency

DNRC submits a list of funding recommendations to the Governor, who reviews the list and submits recommendations to the legislature. Funding for projects comes in the form of grants and/or loans made to both public and private entities. The legislature has final approval for the awarding of RRGL grants and loans, which will be introduced in HB 6 and HB 8, respectively.

Eligible applicants include:

- A department, agency, board, commission, or other division of state government
- A city, county, or other political subdivision or local government body of the state
- A tribal government

EXECUTIVE RECOMMENDATION - GRANTS

Figure 8 shows a priority listing of the RRGL grants recommended by the executive for the 2007 biennium. DNRC received a total of 63 applications. HB 6 will include a list of 59 projects estimated to cost \$5.7 million. The executive recommends \$4 million of funding for the first 40 projects in Figure 8. In addition, the executive recommendation includes \$100,000 to fund the DNRC emergency grant program and \$300,000 for project planning grants awarded by the department over the biennium.

Renewable Resource Grants 2007 Biennium				
Rank	Applicant	Project Type	Grant Amount	
			Requested	Cumulative
1	Milk River Joint Board of Control Halls Coulee Siphon Repair	Irrigation	\$100,000	\$100,000
2	Spring Meadows County Water District Drinking Water Project	Drinking Water	100,000	200,000
3	Montana State University Four Corners Surface and Groundwater Study	Water Management	99,618	299,618
4	Beaverhead CD Spring Creek Restoration	Water Management	100,000	399,618
5	St. Ignatius, Town of Wastewater Improvement Project	Wastewater	100,000	499,618
6	DNRC Deadmans Basin Supply Canal Rehab Project	Irrigation	100,000	599,618
7	Jefferson Valley CD Jefferson River Restoration	Water Management	95,469	695,087
8	Carter Chouteau County WSD Drinking Water Project	Drinking Water	100,000	795,087
9	Sheridan, Town of Drinking Water Project	Drinking Water	100,000	895,087
10	Lower Yellowstone Irrigation District Lower Yellowstone Canal	Irrigation	100,000	995,087
11	DNRC Frenchman Dam Rehab Study	Dam	100,000	1,095,087
12	DNRC Martinsdale North Dam Riprap Program	Dam	100,000	1,195,087
13	Seeley Lake Sewer District Wastewater Improvement Project	Wastewater	100,000	1,295,087
14	Upper/Lower River Road WSD Drinking Water and Wastewater Project	Drinking & Wastewater	100,000	1,395,087
15	Buffalo Rapids Irrigation District Canal Automation	Irrigation	88,955	1,484,042
16	Choteau, City of Drinking Water Project	Drinking Water	100,000	1,584,042
17	Dodson, Town of Wastewater System Improvements	Wastewater	100,000	1,684,042
18	Gallatin County Floodplain Delineation Project	Water Management	100,000	1,784,042
19	Yellowstone Irrigation District Flow Measurement Project	Irrigation	100,000	1,884,042
20	Gardiner-Park County WD Water System Improve - Phase II	Drinking Water	100,000	1,984,042

Figure 8
Continued on next page

Renewable Resource Grants 2007 Biennium				
Rank	Applicant	Project Type	Grant Amount Requested	Cumulative
21	Liberty County CD Chester Sprinkler Irrigation Project	Irrigation	100,000	2,084,042
22	Cascade, Town Water System Improvements	Drinking Water	100,000	2,184,042
23	Ranch County WSD Water System Improvements	Drinking Water	100,000	2,284,042
24	Libby, City of Cabinet Heights Wastewater System Improvements	Wastewater	100,000	2,384,042
25	Broadview, Town of Broadview Water Supply Study	Water Management	99,997	2,484,039
26	DNRC Martinsdale Outlet Canal Drop Structures	Irrigation	100,000	2,584,039
27	Roosevelt County CD Fort Peck Irrigation Quality and Quantity Phase I	Irrigation	99,995	2,684,034
28	Buffalo Rapids Irrigation District Improving Efficiency and Quality	Irrigation	100,000	2,784,034
29	Paradise Valley ID Turnout Replacement Project	Irrigation	100,000	2,884,034
30	Manhattan, Town of Wastewater Treatment System Improvements - Phase II	Wastewater	100,000	2,984,034
31	Woods Bay Homesites County WSD Water System Improvements	Drinking Water	100,000	3,084,034
32	Custer Area, Yellowstone County WSD Wastewater Improvement Project	Wastewater	100,000	3,184,034
33	Fort Belknap Irrigation District Sugar Factory Lateral Project Phase II	Irrigation	100,000	3,284,034
34	Laurel, City of Wastewater Improvement Project	Wastewater	100,000	3,384,034
35	Yellowstone CD Canyon Creek Restoration	Water Management	100,000	3,484,034
36	Valier, Town of Wastewater Improvement Project	Wastewater	100,000	3,584,034
37	Fairfield, Town of Wastewater Improvement Project	Wastewater	100,000	3,684,034
38	Glasgow Irrigation District Vandalia Dam Improvements Phase III	Dam	100,000	3,784,034
39	Ennis, Town of Wastewater Improvement Project Phase II	Wastewater	100,000	3,884,034
40	Bighorn CD Alluvial Aquifers of Northern Bighorn County	Water Management	100,000	3,984,034

Figure 8 (continued)
Continued on next page

Renewable Resource Grants 2007 Biennium				
Rank	Applicant	Project Type	Grant Amount	
			Requested	Cumulative
41	Savage Irrigation District	Irrigation	62,814	4,046,848
42	Savage Irrigation Rehabilitation Plan			
42	Butte-Silver Bow	Drinking Water	100,000	4,146,848
	Big Hole River Transmission Line Replacement			
43	Whitefish, City of	Drinking Water	100,000	4,246,848
	Drinking Water Project			
44	Circle, Town of	Wastewater	100,000	4,346,848
	Wastewater Improvement Project			
45	Black Eagle WASD	Drinking Water	50,000	4,396,848
	Water System Improvements			
46	Lewis and Clark CD	Irrigation	100,000	4,496,848
	Florence Canal Rehabilitation			
47	Sweet Grass County CD	Dam	85,000	4,581,848
	Middle Glaston Reservoir Feasibility Study			
48	Livingston, City of	Water Management	100,000	4,681,848
	Livingston Flood Damage Reduction Study			
49	Liberty County CD	Water Management	100,000	4,781,848
	Marias Baseline Development Project			
50	Hammond Irrigation District	Irrigation	38,200	4,820,048
	Porcupine Creek Siphon Rehab			
51	Bear Creek, Town of	Drinking Water	100,000	4,920,048
	Water System Improvements			
52	Ryegate, Town of	Wastewater	100,000	5,020,048
	Wastewater System Improvements			
53	Sun Prairie Village County WSD	Drinking Water	100,000	5,120,048
	Water System Improvements			
54	Butte Silver Bow	Water Management	100,000	5,220,048
	Water Master Plan			
55	DNRC	Water Management	99,714	5,319,762
	Increasing Montana Water Management Capacity			
56	Milk River Joint Board of Control	Dam	100,000	5,419,762
	Lake Sherburne Dam Outlet Works Rehab			
57	Bigfork County WSD	Wastewater	100,000	5,519,762
	Wastewater System Improvements			
58	Ruby Valley CD	Water Management	33,694	5,553,456
	Ruby Groundwater Management Plan - Phase I			
59	Cartersville Irrigation District	Irrigation	100,000	5,653,456
	Sand Creek Siphon Rehab Project			
Total RRGL Requests			<u>\$5,653,456</u>	

Figure 8 (continued from previous page)

FUNDING - GRANTS

Funding for the RRGL program is established in 85-1-604, MCA, with the creation of the renewable resource grant and loan state special revenue account. Deposits to this account are made from three sources, including:

- Interest income of the resource indemnity trust fund as provided in and subject to the conditions of 15-38-202, MCA (\$2.0 million fiscal year for the purpose of making grants)
- Excess coal severance tax proceeds allocated by 85-1-603, MCA to the renewable resource loan debt service fund (above debt service requirements as provided in and subject to the conditions of 85-1-619, MCA)
- Fees or charges collected by the department for the servicing of loans, including arrangements for obtaining security interests

Appropriations from the account are authorized in 85-1-604, MCA and state that appropriations may be made for grants and administrative expenses, including salaries and expenses for personnel, equipment, office space, and other expenses necessarily incurred in the administration of the grants program. Expenses may be funded before projects. As seen in Figure 9, administration for the RRGL program is deducted from available program funds before consideration of grant awards. Additionally, both the MSU-Northern and the Judiciary Water Court appropriations are funded with additional allocations of RIT interest that are deposited into the renewable resource state special revenue account. The estimated fund balance shows that the renewable resource grant and loan account will have \$4.6 million available for project grants, if all executive recommendations are retained at the proposed levels. The executive recommends \$4.0 million for RRGL grants.

Renewable Resource State Special Revenue Account (02272)	
Fund Balance Projection 2007 Biennium	
Estimated Beginning Fund Balance-(7/1/2005)	\$465,437
Revenue Projections ¹	
Resource Indemnity Trust Interest - Grant Allocation	\$4,000,000
Resource Indemnity Trust Interest - MSU Northern	480,000
Resource Indemnity Trust Interest - Additional	1,509,600
Excess coal tax proceeds from debt service and interest	516,009
STIP / Other interest	20,000
Administrative Fees	14,000
2007 Biennium Revenues	\$6,539,609
Proposed Expenditures ²	
Administration - DNRC	(10,000)
MSU-Northern Statutory Appropriation	(480,000)
Flathead Basin Commission - DNRC	(16,002)
Water Court - Judiciary	(1,533,510)
Total Proposed Expenditures	(2,039,512)
Balance Available for Renewable Resource Grant and Loan Program	\$4,965,534
Other Grants, HB 6 ³	
Emergency Grants	(100,000)
Project Planning Grants	(300,000)
Total Other Grants	(400,000)
Fund Balance Available for RRGL Grants:	<u>\$4,565,534</u>

¹RTIC recommendations

²Executive general appropriations act proposal

³Executive proposal for HB 6

Figure 9

LFD COMMENT

RIT Estimated Interest Earnings: The significant differences between the RIT interest earning estimates adopted by the Revenue and Transportation Interim Committee (RTIC) and the estimates of the executive have the effect of creating differences in the number of potential grant awards and ending fund balances.

There is a possibility that the revenue estimates of trust funds bond pool interest earnings adopted by the RTIC are overstated and that amendments may be necessary that will reduce the estimates. At issue is the potential reduction in capital gains income from the sale of bonds. LFD staff is researching this issue and, if necessary, will recommend revenue estimate amendments to the appropriate tax committee. Appropriation subcommittees that appropriate these types of interest earnings should be aware that if such amendments are necessary and are adopted, the amounts available for appropriation will be reduced.

LFD Issue

Water Court Appropriation: The renewable resource grant and loan account was established to provide the accounting mechanism for the RRGL program. Currently, additional flows of RIT interest earnings are processed through the account for programs such as the Water Court. In the 2007 biennium, interest earnings from the RIT are not estimated to be sufficient to support the proposed costs of the program. Consequently, approximately \$24,000 of income statutorily appropriated for the RRGL will fund the Water Court. The Long-Range Planning subcommittee may wish to consider one of the following options:

- Request a \$24,000 reduction of the Water Court appropriation proposed in the general appropriations act, or
- Accept the full proposal for the Water Court appropriation

EXECUTIVE RECOMMENDATION - LOANS

As presented in HB 8, the executive budget recommendations for loans under the Renewable Resource Grant and Loan Program total \$185,000 for new projects in which loans are requested and approved by DNRC. Although the executive budget proposed \$161,183 for new projects, an additional \$23,817 is recommended to ensure adequate funding for the included projects. The request also includes proposals for the reauthorization of \$4.7 million in projects that were not able to complete the loan requirements before the end of the 2005 biennium. Also proposed is \$1.7 million that would be made available as loans to finance projects that requested grants, but for which sufficient funds may not be available. Another \$657,842 would be used to establish a reserve for bonds. The total bond request is \$7.2 million.

If approved by the legislature, HB 8 would authorize the Board of Investments to issue coal severance tax bonds in the amount of \$7.2 million, which would be appropriated to the Department of Natural Resources for financing the projects identified in the bill. Executive loan recommendations for the 2007 biennium are included in Figure 10. Loan repayments from the loans financed with coal severance tax bonds are used to pay the debt service. Because the loans authorized in HB 8 are sometimes offered at reduced rates, coal severance tax revenues subsidize these reduced rates. Consequently, less principal is invested in the Treasure State Endowment Fund, the Treasure State Endowment Regional Water System Fund, and, under current law, the Permanent Coal Trust Fund. As a result, the trust receives reduced interest earnings. Under present law, this will affect the amount of interest that is deposited into the general fund from the permanent coal trust.

Renewable Resource Program Loans 2007 Biennium		
Loans-Sponsor/Project	Legislative Appropriation	Cumulative Total
Section 1		
Group A Projects¹ (4.5% or State bond rate, whichever is lower-20 years)		
Montana DNRC		
Deadmans Basin Supply Canal Rehabilitation Project	\$55,000	\$55,000
Montana DNRC		
Martinsdale North Dam Riprap Project	90,000	145,000
Cartersville Irrigation District		
Sand Creek Siphon Rehabilitation Project	40,000	185,000
Section 2		
Group A Projects² (2.0% below long term bond rate for 1st 5 years, market rate for remaining 15 years)		
Lockwood Water and Sewer District		
Wastewater Collection and Treatment Works	3,300,000	3,485,000
Group B (2.25% 1st \$250,000, 0% for anything over \$500,000-20 years)		
Lower Willow Creek Drainage District		
Lower Willow Creek Dam Rehabilitation	295,000	3,780,000
Group C Projects (4.5% or State bond rate, whichever is lower-20 years)		
Mill Creek Irrigation District		
Mill Lake Dam Rehabilitation	572,000	4,352,000
Montana DNRC		
North Fork of the Smith River Dam Rehabilitation	<u>557,000</u>	4,909,000
Total Loan Authorizations:	4,909,000	
Additional Loan Authorizations:	1,669,422	
Loan Reserve ³ :	<u>657,842</u>	
Total Bond Request	<u>\$7,236,264</u>	

¹ Section 1 projects meet the provisions of 17-5-702, MCA.

² Section 2 projects may not complete the requirements needed to obtain the loan funds prior to June 30, 2005

³ To finance loans in lieu of grants for grants recommended in HB 6

NOTE: Projects are grouped by differences in interest rates.

Figure 10

FUNDING - LOANS

RRGL program bond authority is provided in 85-1-624, MCA. In the 2003 legislative session, the legislature approved an increase in bonding authority, from \$20 million to \$30 million. Consequently, the department will have continuing ability to fund natural resource projects with bonded debt into the future. Money in the coal severance tax bond fund is pledged for the payment of the principal and interest of the bond issue requested in HB 8, as directed in Title 17, Chapter 5, part 7, MCA.

NOTE:

Bonds authorized in HB 8 are general obligation bonds, constituting a state debt and requiring a two-thirds vote of the members of each house of the legislature. Furthermore, the coal severance tax bond fund is pledged for debt service payments on the bonds, requiring a three-fourths vote of the members of each house as mandated by the Montana Constitution.

RECLAMATION AND DEVELOPMENT GRANT PROGRAM

PROGRAM DESCRIPTION

Resource indemnity trust (RIT) investment earnings are a major source of revenue for several natural resource agencies and programs, including: 1) the Renewable Resource Grant and Loan Program (RRGL); and 2) the Reclamation and Development Grant Program (RDGP). The Board of Investments invests funds deposited in the RIT and some of the investment earnings are used to fund the RRGL and RDGP. For more detailed information on the allocation and expenditure of other RIGWA proceeds and RIT interest earnings, see the Department of Natural Resources and Conservation (DNRC) summary in Section C of the Legislative Budget Analysis, Volume 4.

The Reclamation and Development Grant Program (RDGP) is designed to fund projects that:

“..indemnify the people of the state for the effects of mineral development on public resources and that meet other crucial state needs serving the public interest and the total environment of the citizens of Montana” (90-2-1102, MCA).”

As provided in statute, projects approved under the RDGP are intended to:

- Repair, reclaim, and mitigate environmental damage to public resources from non-renewable resource extraction
- Develop and ensure the quality of public resources for the benefit of all Montana citizens

The RDGP is administered by DNRC, which solicits, evaluates, and ranks each application on a biennial basis. Those eligible to apply for grants include state and local governments, political subdivisions, and tribal governments. Applications are evaluated according to specific criteria related to:

- Public benefit
- Need and urgency
- Appropriateness of technical design
- Financial feasibility
- Project management/organization

No grant may exceed \$300,000. DNRC forwards a list of recommendations to the executive, who reviews the list and submits funding recommendations to the legislature for appropriation.

EXECUTIVE RECOMMENDATION

Figure 11 shows a priority listing of the RDGP grants recommended by the executive for the 2007 biennium. DNRC received a total of 21 applications totaling \$5.5 million. HB 7 will include a list of 16 projects with a proposed appropriation of \$4.1 million. In accordance with 90-2-1113, MCA, priority consideration is given to the Montana Board of Oil and Gas Conservation for \$600,000 in grants (projects ranked 1 and 2) and abandoned mine reclamation projects for \$800,000 in grants (projects ranked 3 through 5, actually amounting to \$900,000) over the biennium. The remainder, approximately \$2.6 million, is recommended for other reclamation and development projects. Project grants are matched by non-RDGP funds from a variety of state, federal, private, and local sources.

Reclamation and Development Grants 2007 Biennium				
Rank	Sponsor/Title	Amount Requested	Recommended Amount	Cumulative Amount
1	Board of Oil and Gas Conservation 2005 Eastern District Orphaned Well Plug & Abandonment & Site Restoration	\$300,000	\$300,000	\$300,000
2	Board of Oil and Gas Conservation 2005 Northern District Orphaned Well Plug & Abandonment & Site Restoration	300,000	300,000	600,000
3	Department of Environmental Quality Bluebird Mine Reclamation	300,000	300,000	900,000
4	Department of Environmental Quality Frohner Mine Reclamation	300,000	300,000	1,200,000
5	Department of Environmental Quality Buckeye Mine & Millsite Reclamation	300,000	300,000	1,500,000
6	Lewistown, City of Reclamation of Brewery Flats on Big Spring Creek	300,000	300,000	1,800,000
7	MT Department of Natural Resources and Conservation St. Mary Studies and Design	300,000	300,000	2,100,000
8	Butte-Silver Bow Local Government Belmont Shaft Failure & Subsidence Mitigation	300,000	300,000	2,400,000
9	Pondera County Oil & Gas Well Plug & Abandon	100,000	100,000	2,500,000
10	Custer County CD Yellowstone River Resource Conservation Project	299,965	299,965	2,799,965
11	Sheridan County Conservation District Yellowstone River Resource Conservation Project	50,000	50,000	2,849,965
12	Teton County 2005 Plugging & Abandonment Aid to Small Independent Oil Operators	300,000	150,000	2,999,965
13	MT Department of Environmental Quality Zortman Mine - Completion of Reclamation Alternative Z6	300,000	300,000	3,299,965
14	Butte-Silver Bow Local Government Excelsior Reclamation	129,800	240,850	3,540,815
15	Powell County Wetland Reclamation and Redevelopment	212,950	212,950	3,753,765
16	MT Department of Environmental Quality MTS Tire Recyclers Cleanup	300,000	300,000	4,053,765
17	MSU Geologic Potential of Carbon Sequestration in MT	299,166	-	4,053,765
18	Montana Department of Environmental Quality Former Harlem Equity Co-op Bulk Plant	285,572	-	4,053,765
19	Montana Department of Environmental Quality Landusky Mine – Surface & Groundwater Interactions in Swift Gulch and Landusky Pit	300,000	-	4,053,765
20	MT Department of Environmental Quality Zortman and Landusky Mines - Supplemental Funding for Near-Term Water Treatment	\$300,000	-	4,053,765
21	Sheridan County CD Reclaiming Oilfield Brine-Contaminated Soils - Phase II	\$206,069	-	4,053,765
Total Grant Requests/Recommendations		<u>\$5,483,522</u>	<u>\$4,053,765</u>	

Figure 11

FUNDING

Funding for the Reclamation and Development Grant Program is established in 90-2-1104, MCA, with the creation of the reclamation and development grant state special revenue account. Deposits to this account are made from four revenue sources, including:

- Interest income of the resource indemnity trust fund under the provisions of 15-38-202, MCA
 - (\$1.5 million each fiscal year for the purpose of making grants, plus 35% of the interest income remaining after all other statutory allocations)
- Resource indemnity and ground water assessment tax under provisions of 15-38-106, MCA
 - (50% of the remaining proceeds, after appropriations for CIRCLA debt service, and \$366,000 to the groundwater assessment account, for the purpose of making grants)
- Metal mines license tax proceeds as provided in 15-37-117 (1)(d), MCA
 - (7% of total collections each year for the purpose of making grants)
- Oil and gas production tax as provided in 15-36-331, MCA
 - (2.95% of oil and natural gas production taxes remaining after the distributions pursuant to subsections (2) and (3))

During the special session of August 2002, the legislature reduced the many of the revenue flows into the RDGP account in FY 2003, some of which were carried through FY 2005. The reductions temporarily lowered the amount of money available for grants.

Appropriations from the account are authorized in 90-2-1104, MCA and state that appropriations may be made for grants and administrative expenses, including salaries and expenses for personnel, equipment, office space, and other expenses necessarily incurred in the administration of the grants program. Expenses may be funded before projects. As seen in Figure 12, administration for the RDGP program is deducted from available program funds before consideration of grant awards. Additionally, the State Library Operation is funded with an additional appropriation of RIT interest that is deposited in the reclamation and development state special revenue account. The estimated fund balance shows that the RDGP will have ample dollars to fund all requests. If the executive budget recommendations are approved, the reclamation and development grant account is projected to have an ending fund balance of \$2.6 million.

Reclamation and Development State Special Revenue Account (02458)	
Fund Balance Projection 2007 Biennium	
Estimated Beginning Fund Balance-(7/1/2005)	\$1,968,391
Revenue Projections ¹	
Resource Indemnity Trust Interest	3,000,000
Resource Indemnity Trust Interest - Additional	1,761,000
Resource Indemnity and Ground Water Assessment Tax	630,000
Metal Mines Tax	1,311,000
Oil and Gas Production Tax	<u>3,844,000</u>
2007 Biennium Revenues	10,546,000
Proposed Expenditures ²	
Administration - DNRC	(12,000)
Conservation and Resource Development Div. - DNRC	(1,630,243)
Water Resources Division - DNRC	(107,428)
Central Management - DEQ	(88,378)
Enforcement - DEQ	(9,648)
Permitting and Compliance - DEQ	(3,243,521)
State Library Operations - Library Commission	<u>(782,872)</u>
Total Proposed Expenditures	<u>(5,874,090)</u>
Balance Available for Grants	\$6,640,301
Proposed Grants ³	<u>4,053,765</u>
Estimated Ending Fund Balance - (6/30/2007)	<u>\$2,586,536</u>
¹ RTIC recommendations	
² Executive general appropriations act proposal	
³ Executive grant proposal	

Figure 12

**LFD
COMMENT**

RIT Estimated Interest Earnings: The significant differences between the RIT interest earning estimates adopted by the Revenue and Transportation Interim Committee (RTIC) and the estimates of the executive have the effect of creating differences in the number of potential grant awards and ending fund balances.

There is a possibility that the revenue estimates of trust funds bond pool interest earnings adopted by the RTIC are overstated and that amendments may be necessary that will reduce the estimates. At issue is the potential reduction in capital gains income from the sale of bonds. LFD staff is researching this issue and, if necessary, will recommend revenue estimate amendments to the appropriate tax committee. Appropriation subcommittees that appropriate these types of interest earnings should be aware that if such amendments are necessary and are adopted, the amounts available for appropriation will be reduced.

CULTURAL AND AESTHETIC GRANT PROGRAM

PROGRAM DESCRIPTION

The Cultural and Aesthetic Grant Program, as provided in Title 22, Chapter 2, part 3, MCA, is administered by the Montana Arts Council (MAC). Investment earnings from a statutory trust, which receives coal severance tax revenues, fund the grant program. By statute, the interest from the cultural trust is to be appropriated for protection of works of art in the State Capitol and other cultural and aesthetic (C&A) projects, 15-35-108, MCA.

Grant applications for cultural and aesthetic projects are submitted to the MAC on a biennial basis. Eligible applicants include the state of Montana and regional, county, city, town, or Indian tribal governments. A 16-member Cultural and Aesthetic Projects Advisory Committee, with eight members appointed by the Montana Arts Council and eight appointed by the Montana Historical Society, reviews each application. The committee prioritizes the requests and makes funding recommendations to the legislature as part of the executive budget. All grants require legislative approval in accordance with 22-2-306 through 309, MCA.

Figure 13 provides an historic perspective of the Cultural and Aesthetic Grant Program. In the table, projects are funded from the C&A account unless otherwise noted.

Cultural and Aesthetic Grant Program Grant Awards by Biennium				
Biennium	Funds Appropriated	General Fund Appropriated	Funds Expended	Number of Projects Funded
1979	\$50,000		\$50,000	1
1981	140,000		140,000	3
1983	641,680		602,042	15
1985	823,479		810,704	39
1987	1,476,511		1,414,114	63
1989	1,211,817		1,099,290	53
1991	1,298,788		1,184,661	65
1993	1,551,323		1,531,239	88
1995	1,706,735		1,267,952	93
1997	857,926		852,003	77
1999	1,489,453		1,416,787	79
2001	634,939	600,000	1,163,905	76
2003	705,425	532,575 ¹	1,176,602	74
2005	659,000	499,150	1,135,473 Est.	81
2007	1,094,233	40,000 ²	N/A	84

¹ \$198,575 of general fund support replaced with lodging facility tax in fiscal 2003.
² Represents the executive proposal

Figure 13

EXECUTIVE RECOMMENDATION

The executive recommendation for C&A grants will be introduced in HB 9. The first HB 9 priority recommended for funding is a \$30,000 appropriation to the Montana Historical Society for the care and conservation of capitol complex artwork, in accordance with 2-17-805, MCA. The second priority is for 84 C&A grant awards totaling \$770,553. These recommended awards are listed in Figure 14 in priority order within four categories, which include Special Projects less than \$4,500, Special Projects greater than \$4,500, Operational Support Projects, and Capital Expenditure Projects. During the 2007 biennium there are no projects recommended in the fifth, "Challenge Grant", category. The executive budget also includes a recommendation for \$333,680 in C&A funds to be appropriated in the general appropriations act (HB 2) to fund Montana Art Council administrative costs and the costs of the Folklife program. Total executive recommendations are \$1.1 million.

The executive recommendation includes two proposals that increase the monies available for appropriation. First, a transfer of \$3.9 million in "one time" general fund dollars to the cultural trust will replace the corpus of the fund used in 1997 for the purchase of the historic Virginia and Nevada cities. With the corpus of the trust made whole, interest earnings for this and future biennia will again be sufficient to support the grant program, and the need for other funding, averaging \$270,000 per year of general fund, should no longer be necessary. Second, the recommendation includes a HB 2 appropriation for \$40,000 from general fund monies for the biennium.

Cultural and Aesthetic Grant Program Grant Recommendations 2007 Biennium					
Rank	Grant Number	Organization Name	Requested	Grant Recommended	Cumulative Total
Special Project < \$4500					
1	1105	Miles City Speakers Bureau	\$4,500	\$4,500	\$4,500
2	1108	Preservation Cascade, Inc	4,470	3,000	7,500
3	1102	Council for the Arts, Lincoln	2,500	2,500	10,000
4	1107	Montana Storytelling Roundup	4,500	4,500	14,500
5	1101	Butte Citizens for Pres & Revitalization	4,500	4,500	19,000
6	1109	Signatures from Big Sky	4,500	4,500	23,500
7	1103	Fort Wm H Harrison Museum Fdn	4,500	3,000	26,500
8	1104	Metropolitan Opera National Council	2,010	1,000	27,500
9	1106	Montana Mandolin Society	2,000	2,000	29,500
10	1110	Wibaux County Visioning Committee	3,550	3,550	33,050
11	1100	Artworld Academy	4,000	0	33,050
Special Project > \$4500					
1	1126	Montana Committee for the Humanities	75,000	31,798	64,848
2	1129	Montana Preservation Alliance	31,879	17,600	82,448
3	1117	Emerson Cultural Center	20,000	10,600	93,048
4	1133	Prairie County Museum/Montana Historical Society	23,634	16,700	109,748
5	1123	Missoula Art Museum	25,000	14,100	123,848
6	1132	Pondera Arts Council	19,948	13,400	137,248
7	1112	Bozeman Symphony Society	20,000	9,900	147,148
8	1134	Rimrock Opera Company	25,000	7,100	154,248
9	1124	Missoula Symphony Association	9,000	4,200	158,448
10	1135	Southwest Montana Arts Council	8,950	6,300	164,748
11	1127	Montana Historical Society	26,096	14,100	178,848
12	1137	VIAs, Inc	19,720	12,000	190,848
13	1120	International Choral Festival	7,500	3,500	194,348
14	1121	KUFM-TV, Montana PBS	27,000	10,600	204,948
15	1138	World Museum of Mining	1,447	1,447	206,395
16	1122	Mission Valley Friends of the Arts	8,640	4,000	210,395
17	1111	Artisan Dance Theatre	50,000	14,100	224,495
18	1136	St Vincent Health Care Foundation	20,000	3,500	227,995
19	1125	Montana Alliance for Arts Ed	10,000	3,500	231,495
20	1128	Montana Museum of Art & Culture	4,500	3,500	234,995
21	1131	Paris Gibson Square	23,530	3,500	238,495
22	1115	Children's Museum of Montana	14,205	6,200	244,695
23	1114	Chantilly Players	20,000	5,600	250,295
24	1118	Garnet Pres / Garnet Ghost Town	14,800	4,200	254,495
25	1130	Nat'l Museum of Forest Service History	5,677	2,500	256,995
26	1119	homeWORD	4,200	0	256,995
27	1113	Browning Community Development Corp	9,000	0	256,995
28	1116	Community Channel Seven Television	15,000	0	256,995
29	1139	Yirsa, Brenda	30,000	0	256,995

Figure 14
Continued on next page

Cultural and Aesthetic Grant Program Grant Recommendations 2007 Biennium					
Rank	Grant Number	Organization Name	Requested	Grant Recommended	Cumulative Total
Operational Support					
SSO1	1164	Montana Art Gallery Director's Assoc	38,000	14,100	271,095
SSO2	1170	Montana Performing Arts Consortium	44,000	17,600	288,695
SSO3	1167	Montana Assoc of Symphony Orchestras	20,000	6,300	294,995
SSO4	1166	Montana Arts	36,000	10,600	305,595
SSO5	1169	Montana Dance Arts Association	8,000	3,500	309,095
1	1177	Shakespeare in the Parks	40,000	17,600	326,695
2	1150	Custer County Art Center	32,000	22,600	349,295
3	1163	Montana Agricultural Center & Museum	24,000	17,000	366,295
4	1162	Missoula Children's Theatre, Inc.	40,000	21,200	387,495
5	1149	Carbon County Historical Society	30,000	15,500	402,995
6	1183	Writer's Voice (Billings YMCA)	30,000	17,600	420,595
7	1155	Great Falls Symphony Assoc	28,000	14,100	434,695
8	1142	Art Mobile of Montana	20,000	10,600	445,295
9	1159	Holter Museum of Art	60,000	21,200	466,495
10	1145	Billings Symphony Society	50,000	13,400	479,895
11	1140	Alberta Bair Theater	50,000	17,600	497,495
12	1176	Schoolhouse History & Art Center	25,000	10,600	508,095
13	1181	Western Heritage Center	60,000	14,100	522,195
14	1143	Big Horn Arts and Crafts Assoc	20,000	10,600	532,795
15	1182	Whitefish Theatre Company	20,000	10,600	543,395
16	1157	Helena Symphony Orchestra and Chorale	30,000	14,100	557,495
17	1141	Archie Bray Foundation	50,000	14,100	571,595
18	1146	Butte Center for the Performing Arts	30,000	17,600	589,195
19	1154	Grandstreet Theatre	28,000	10,600	599,795
20	1173	Myrna Loy Center	40,000	14,100	613,895
21	1184	Yellowstone Art Museum	79,000	18,300	632,195
22	1171	Montana Repertory Theatre	25,000	10,600	642,795
23	1168	Montana Ballet Company	24,500	8,500	651,295
24	1158	Hockaday Museum of Art	32,384	8,500	659,795
25	1165	Montana Artists Refuge	44,865	3,500	663,295
26	1172	Museum of the Rockies	60,000	7,100	670,395
27	1175	Rocky Mountain Ballet Theater	15,300	7,100	677,495
28	1180	VSA arts of Montana	12,000	7,100	684,595
29	1185	Young Audiences of Western MT	12,000	5,600	690,195
30	1179	Vigilante Theatre Company	14,100	6,300	696,495
31	1147	Butte Symphony Association	30,000	7,100	703,595
32	1160	Intermountain Opera	29,520	8,500	712,095
33	1151	District 7 HRDC Growth Thru Art	40,000	10,600	722,695
34	1156	Hamilton Players, Inc	27,210	7,100	729,795
35	1148	Carbon County Arts Guild & Depot	15,400	6,400	736,195
36	1174	Northwest Montana Historical Society	45,512	3,500	739,695
37	1161	Miles City Preservation Comm	8,000	3,000	742,695
38	1178	Sunburst Community Foundation	14,750	5,300	747,995
39	1144	Billings Cultural Partners	10,000	2,000	749,995
40	1152	Federation of Fly Fishers	30,000	0	749,995
41	1153	Fort Peck Community College	27,800	0	749,995

Figure 14 (continued)
Continued on next page

Cultural and Aesthetic Grant Program Grant Recommendations 2007 Biennium					
Rank	Grant Number	Organization Name	Requested	Grant Recommended	Cumulative Total
Capital Expenditure					
1	1188	Liberty Village Arts Center & Gallery	12,375	6,300	756,295
2	1189	Meagher County Historical Association	4,500	4,500	760,795
3	1190	St Labre Indian School & Museum	4,131	3,730	764,525
4	1186	Friends of the Madison Valley Library	10,000	3,528	768,053
5	1187	Lewistown Art Center	5,000	2,500	770,553
Total Requested/Recommended			<u>\$2,097,103</u>	<u>\$770,553</u>	

Figure 14 (continued from previous page)

FUNDING

Prior to the 1997 legislative session, the C&A Grant Program was funded entirely with interest earnings from the cultural trust. However, the 1997 Legislature appropriated \$3.9 million, approximately half of the trust corpus, for the purchase of Virginia City and Nevada City properties.

The cultural trust receives a statutory 0.63 percent of coal severance tax revenues, but that proportion has changed numerous times since the corpus reduction of 1997. In order to compensate for the lost interest earnings resulting from the reduced corpus, the 1997 Legislature allocated 0.87 percent of coal severance tax revenue to the C&A project account for the 1999 biennium only. Consequently, the trust was capped in FY 1998 and 1999. In FY 2000, the coal severance tax allocation to the cultural trust was returned to 0.63 percent. The remaining 0.24 percent of coal severance taxes allocated to the C&A project account for the 1999 biennium was statutorily directed to the general fund.

In FY 2002 two actions were taken to increase revenues to the general fund. First, the C&A project grants were reduced by \$25,000. Next, the distribution from the coal severance tax was diverted out of the cultural trust and into the general fund. The elimination of the flow caused a reduction in interest available for FY 2003. Additionally, during the special session of August 2002, general fund support of \$198,575 in the FY 2003 was replaced with lodging facility use tax revenue. In the 2007 biennium, the interest income from the cultural trust represents the only statutory funding for the C&A grant program.

Based on the assumptions adopted by the Revenue and Transportation Interim Committee (RTIC), interest earnings on the cultural trust will total \$715,000 for the 2007 biennium. The executive budget includes \$333,680 for administrative expenses and the folklife program, and grant funding proposals of \$770,553. Under present law, total appropriations would cause a negative ending fund balance of \$419,233.

The executive proposal to replace \$3.9 million of the trust corpus will be required to achieve a positive ending fund balance at the end of FY 2007. The increase in corpus will equate to approximately \$537,000 in new interest earnings if the transfer takes place on July 1, 2005. Furthermore, if the legislature approves the \$40,000 general

Cultural & Aesthetic Grant Program Fund Balance Projection, 2007 Biennium	
Estimated Beginning Fund Balance	\$0
Revenue Projections ¹	
2006 Investment Earnings	351,000
2007 Investment Earnings	<u>364,000</u>
2007 Biennium Revenues	\$715,000
Proposed Expenditures	
Administration and Folklife	(333,680)
Capitol Complex Works of Art	(30,000)
Grants	<u>(770,553)</u>
Total Expenditures	<u>(1,134,233)</u>
2007 Biennium Ending Fund Balance	<u>(\$419,233)</u>
Executive Proposals:	
General Fund Transfer	40,000
Restore Corpus, \$3.9 million ²	
Fiscal 2006 Interest	269,000
Fiscal 2007 Interest	<u>268,000</u>
Total Funds Available	<u>537,000</u>
	<u>\$157,767</u>

¹ RTIC recommendations

² Based on proposed transfer of \$3.9 million July 1, 2005

Figure 15

fund transfer as recommended in the general appropriations act, the C&A program will have an ending fund balance near \$158,000. Figure 15 shows the projected fund balance for the 2007 biennium.

**LFD
ISSUE**

C&A Funding: The executive proposal to repay the corpus of the cultural trust will produce approximately \$537,000 of additional interest earnings for the 2007 biennium. Under this scenario, the projected ending fund balance for the biennium will be \$158,000, or over 20 percent of the proposed grant awards. The projection for increased interest earnings will be sufficient to support the administration of the program and the proposed grant awards without the need for the \$40,000 general fund appropriation recommended in general appropriations act.

The cultural grants program has historically allowed an ending fund balance of 5 percent in an attempt to mitigate shortfalls that might result from unexpectedly low interest earnings. A 5 percent ending fund balance, given the recommended grants, would amount to approximately \$39,000. The legislature may wish to consider the following options:

- Recommend elimination of the general fund appropriation of \$40,000 and increase grant awards by approximately \$74,000, or 9.6 percent, leaving an estimated ending fund balance of 5 percent in the program.
- Recommend elimination of the general fund appropriation of \$40,000 and keep the grant awards the same, leaving an estimated ending fund balance of \$118,000, or 15 percent of total grant awards.
- Preserve the general fund appropriation of \$40,000 and increase grant awards by approximately \$111,000, or 14.4 percent, leaving an estimated ending fund balance of 5 percent in the program.
- Fully accept the executive proposal and leave an estimated ending fund balance of 20 percent.

**LFD
ISSUE**

Revenue Shortfall: Historically, language contained in HB 9 to address revenue shortfalls has provided for reduction of grants on a pro-rata basis, based on recommendations by the MAC. This methodology differs from the way reduced funding of appropriations is handled by other grant programs, where authorization is given to fully fund projects based on priority status and available funding. The methodology utilized for the C&A grant program may result in all projects being only partially funded, therefore being disruptive to all C&A grant recipients.

In the 2001 biennium, grants were reduced 3.7 percent because of an interest earnings shortfall. In the 2003 biennium, grants were reduced by 2.39 percent as a result of the funding switch to the general fund. While it is too early to know for certain, interest earnings have been low in the 2005 biennium, and the potential exists for another round of grant reductions. While many recipients are able to comply with the lower grant terms, in some cases program plans for the grant dollars are established and irreversible. Reducing grants causes significant disruptions in the programs approved for funding by the legislature. Consequently, the number of artisans participating in the grant program has diminished, as participants fear the possibility that their awards will be cut after the program has already begun.

Therefore, the legislature may wish to consider the following options:

- Maintain the status quo by including language in HB 9 that allows the MAC to reduce all grants on a pro rata basis
- Include language in HB 9 directing the MAC to actually fund grants on a priority basis as revenues become available.

**LFD
COMMENT**

Estimated Interest Earnings: The significant differences between the C&A interest earning estimates adopted by the Revenue and Transportation Interim Committee (RTIC) and the estimates of the executive have the effect of creating differences in the number of potential grant awards and ending fund balances.

There is a possibility that the revenue estimates of trust funds bond pool interest earnings adopted by the RTIC are overstated and that amendments may be necessary that will reduce the estimates. At issue is the potential reduction in capital gains income from the sale of bonds. LFD staff is researching this issue and, if necessary, will recommend revenue estimate amendments to the appropriate tax committee. Appropriation subcommittees that appropriate these types of interest earnings should be aware that if such amendments are necessary and are adopted, the amounts available for appropriation will be reduced.